Committee: IAASB
Meeting Location: Tokyo
Meeting Date: October 12-17

Improving the Clarity of IAASB Standards

Objectives of the Agenda Item
1. To obtain IAASB views and agreement on a revised proposal for improving the clarity of IAASB Standards.
2. To establish a strategy for moving forward on the project.

Background
At its May 2003 meeting, the IAASB expressed general consensus that clarity and understandability of IAASB Standards are essential and that the issue of whether the lettering of Standards should be given ‘equal authority’ needed careful consideration. While no conclusion was reached, it was noted that a move to ‘equal authority’ would require consideration of whether the language used in the plain type lettering is sufficiently clear to avoid any potential misinterpretation of the requirements of an ISA.

In June 2003, IAASB representatives met with IOSCO to clarify IOSCO’s request for clear and concise Standards and to explore options to clarify the authority of ISAs. IOSCO encouraged the IAASB to continue to collaboratively work on this initiative, while acknowledging the challenges that might arise and the already ambitious work program of the IAASB.

At the July 2003 IAASB meeting, Staff presented a comprehensive proposal to improve the clarity of IAASB Standards. IAASB reaction was mixed: some member expressed general support for the proposal, while other members opposed certain aspects (in particular, the proposed use of the word “should” in the plain type lettering). It was however agreed that the initiative to improve the clarity of IAASB Standards should be further pursued and that the proposal be reformulated in light of the comments received.

While no consensus was reached, the IAASB noted that there is strong merit in establishing equal authority to bold and plain lettering in ISAs, and that the present tense may be variously interpreted as being more, or less, definitive than the use of “should” and therefore may be problematic when interpreting and translating the ISAs.

Staff’s original proposal also included a very ambitious timetable in revising ISAs. The timetable targeted revisions of all IAASB Engagement Standards by June 2004 with a proposed effective date of January 2005. The timetable was acknowledged as not being feasible in light of the present work load of the IAASB. Both the EU and IOSCO had also observed that the proposed timetable for June 2004 might not be realistic given the time needed for deliberation by the IAASB to conclude on, and to consider the application of, any revised approach to drafting IAASB Standards.
In light of the number and importance of the issues to be addressed, the IAASB supported the creation of a Task Force to further deliberate the issues and to formulate recommendations for consideration by the IAASB. The Task Force comprises Messrs. Mertin, Kellas, Fogarty and Sylph and Ms. Esdon.

Activities Since Last IAASB Discussions

The Clarity of Standards Task Force met on September 15 and 16 to discuss a revised proposal for improving the clarity of IAASB Standards, taking into account the views expressed by the IAASB in July. The Task Force reached agreement on a revised proposal outlining the objectives of the project and a set of proposed drafting principles for consideration by the IAASB.

The Task Force also considered the issue of implementation and the urgency of the timing thereof given that the IAASB has significant output schedule for release in 2004. The Task Force has concluded that this issue needs to be resolved urgently in order for IAASB to adopt its new drafting convention as soon as possible and to inform users, regulators, translators and others of this new direction.

The findings of the Task Force and implementation proposals are contained in Agenda Item 10-A.

Since the July IAASB meeting, Staff has also engaged an expert in “plain English” to review a sample ISA (ISA 570, Going Concern). The objective of this exercise was to obtain an independent critique of the clarity of the ISA and to identify options that may help improve the clarity of IAASB Standards. The Task Force has commenced its evaluation of the results of the “plain English” review, and will continue this exercise.

Material Presented

Agenda Item 10-A
Issues Paper – Project Objectives, Proposed Drafting Convention and Implementation Plan
(pages 1741 to 1754)

Action Requested

The IAASB is asked to review the accompanying Issues Paper and to consider whether it is in general agreement with the revised proposal, and to formulate recommendations, if any, for matters to be further considered by the Task Force.